Bill Designed To Kill Off Tax Refund Loans

By Mary Wisniewski

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Condemning what he called a "parasitic service," an Evanston state senator has introduced legislation he hopes will make it impossible to offer tax refund anticipation loans in Illinois.

A bill proposed by state Sen. Jeff Schoenberg (D-Evanston) and Illinois Attorney General Lisa Madigan does not ban refund anticipation loans, but could make them too expensive for companies like H&R Block and Jackson Hewitt to make.

The law would cap the annual interest rate at 36 percent. Currently the annual rates are between 40 and 700 percent, not counting administrative fees, according to the National Consumer Law Center. The proposed law would also prohibit tax preparers from using the Earned Income Tax Credit to secure refund anticipation loans.

"Paying your own money to borrow your own money is a bad idea," said Madigan, who along with Schoenberg announced the bill Tuesday -- 10 days before the April 15 deadline for filing federal income taxes.

Tax preparation services say consumers want the loans, and that they provide plenty of information to let people know what they're buying.

A refund anticipation loan, or RAL, is a short-term loan backed by a tax refund. The loan lasts seven to 14 days until the Internal Revenue Service refund covers the loan. The average cost of a rapid refund is $100 -- paid by taxpayers to receive their refunds a week or two early.

Consumer groups have spoken out against RALs as being similar to payday loans -- short-term, high-interest loans designed to wring money out of the poor.

The IRS found that 79 percent of RAL recipients had incomes of $35,000 or less. More than half of all RAL borrowers claim the Earned Income Tax Credit, which was designed to help the working poor, according to the National Consumer Law Center.

More than 12 million Americans took out refund anticipation loans in 2003, paying $1.4 billion in loan and other fees. Seventy percent of RAL borrowers didn't know they'd taken out a loan, the NCLC found.

John Hewitt, president and CEO of Liberty Tax Services, said the rate cap would kill RALs in Illinois, because fees cover the cost of delinquencies. He said that 1.5 percent of RALs aren't paid off by either the IRS or the borrower.

Hewitt said if such a law were passed, it would be repealed because consumers want the loans. "Wait until they hear from angry taxpayers who can't get their money quickly," Hewitt said. "It's a bit short-sighted."

In 2004, 16 percent of Liberty customers opted for RALs, compared with 35.5 percent for Jackson Hewitt and 26.6 percent for H&R Block.

U.S. Rep. Jan **Schakowsky** (D-Ill.) has introduced legislation that would prohibit tax preparers from selling RALs to families who receive the Earned Income Tax Credit.

Low-income people who need help filing their taxes can call the Center for Economic Progress at (312) 252-0280.